National Grid

National Grid USA

Kirk L. Ramsauer
Deputy General Counsel

May 18, 2004

Mary Cottrell, Secretary
Department of Telecommunications & Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: Massachusetts Electric Company -
<u>Application for Authorization and Approval for a $40 million debt refinancing</u>

Dear Secretary Cottrell:

On May 13, 2004, Massachusetts Electric Company filed the above captioned application including Exhibit MEC-1, prefiled testimony of Robert G. Seega. It has come to my attention that Exhibit RGS-3 to Mr. Seega's prefiled testimony included three pages of information unrelated to this transaction and inadvertently included with his testimony. Enclosed for filing at this time are seven (7) hard copies of Exhibit MEC-1 revised to correct Mr. Seega's Exhibit RGS-3. There were no other changes to Mr. Seega's testimony and exhibits.

The revised Exhibit MEC- 1 is also being sent to you electronically.

An additional copy of this filing letter is enclosed, to be date- and time-stamped and returned to me in the attached self-addressed, stamped envelope.

Please feel free to contact me should you have any questions regarding this filing.

Respectfully submitted,

Kirk L. Ramsauer

Enclosures

cc: Joe Rogers

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EXHIBIT MEC-1

Massachusetts Electric Company

Direct Testimony of Robert G. Seega

(Revised May 18, 2004)

Submitted to:
Massachusetts Department of
Telecommunications and Energy

Submitted by:

Massachusetts Electric
A National Grid Company

TESTIMONY OF ROBERT G. SEEGA

Introduction

Q. Please state your name and business address.

A. My name is Robert G. Seega. My business address is 25 Research Drive, Westborough, Massachusetts.

Q. By whom are you employed and in what capacity?

A. I am Assistant Treasurer of Massachusetts Electric Company (Mass. Electric or the Company) and Assistant Treasurer and Director of Treasury Services for National Grid USA Service Company, Inc. (the Service Company).

Q. Please describe your education and business background.

A. I have held a variety of Treasury positions at the Service Company including in accounting, rates and investor relations departments. The Service Company provides these and other services at cost to Mass. Electric and its affiliated companies at National Grid USA, formerly New England Electric System. I have a B.S. in Business Administration from Clark University, and my MBA is from Nichols College.

Q. As Director of Treasury Services, what are your responsibilities?

A. I am responsible for providing certain financial services to all National Grid USA companies including Mass. Electric. These financial services include assisting the Company in reviewing its capital structure and raising funds as necessary from third parties.

Q. Have you previously appeared before regulatory agencies?

A. Yes. I have appeared before the Department, the Rhode Island Public Service Commission, the New York Public Service Commission, and the New York State Energy Research Development Authority.

Q. Please give a brief description of the Company?

A. The Company is a Massachusetts corporation and a subsidiary of National Grid USA, a Delaware corporation and a wholly owned indirect subsidiary of National Grid Transco plc. Its business is that of distributing electricity at retail. The Company has approximately 1.2 million customers in Massachusetts and serves 170 cities and towns. The Company's retail electric rates are subject to the jurisdiction of the Department.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support Mass. Electric's application to the Department for authorization under Mass. Gen. Laws c. 164, § 14 for (1) the execution of one or more loan agreements or supplemental loan agreements with the Massachusetts Development Finance Agency ("MDFA") in connection with the issuance of new tax exempt debt to refinance outstanding tax-exempt bonds, in an amount not to exceed $40 million, together with related financing and security agreements; and (2) issuance of one or more additional series of pledge first mortgage bonds. In addition, my testimony supports Mass. Electric's request for an exemption from the provisions of Mass. Gen. Laws c. 164, § 15 requiring Mass. Electric to invite proposals for the purchase of these bonds.

<u>The Proposed Financing</u>

Q. Please summarize the proposed financing.

A. In connection with the merger of Eastern Edison Company into the Company, the Company assumed Eastern Edison Company's obligations with respect to $40 million of tax-exempt refunding revenue bonds, 5 7/8%, due August 1, 2008 originally issued by the Massachusetts Industrial Finance Agency, predecessor to the MDFA, on behalf of Eastern Edison Company (the MDFA Bonds.) The Company proposes to refinance the MDFA Bonds. The Company would enter into one or more loan and trust agreements with MDFA in connection with the issuance by MDFA of up to $40 million of tax-exempt refunding bonds (New MDFA Bonds) having a maturity of up to twenty years. The New MDFA Bonds will be structured as multi-modal bonds and may bear interest in a daily, weekly, monthly, auction, commercial paper, term or semi-annual rate variable rate mode or in a fixed rate mode (each a Mode and collectively Modes) and will be structured to permit the Company, with the consent of MDFA, to convert bonds in a given Mode to bear interest at other Modes. The initial interest rate will be established by MDFA, the Company, and underwriters prior to the issuance of the New MDFA Bonds. The various Modes establish different periods of time during which a particular interest rate would remain in effect. That is, in the case of the daily Mode, for example, the rate would be reset daily; in the weekly Mode, the rate would be reset weekly. The actual rate for each period (other than auction Mode) would be set by remarketing agents based upon then prevailing market conditions. While in the auction Mode, the interest rate on the New MDFA Bonds will be established through the auction procedures set forth in the applicable loan and trust agreement. The New MDFA Bonds may be secured by a bond insurance policy to be delivered at the time of issuance, assuming this is determined to be cost-effective at the time the bonds are marketed. While bearing interest at a variable rate other than in auction Mode, the owners of the New MDFA Bonds would have the right to tender the bonds for purchase upon specified notice periods. In order to assure the availability of funds to pay this purchase price, if, for some reason, the bonds could not be remarketed to new owners, the bonds may also be secured by liquidity support to be obtained at the time of conversion to such a Mode. The New MDFA Bonds will be subject to redemption at the option of the Company in accordance with the terms of the applicable loan and trust agreement and otherwise as required by such agreement. It may be necessary or advantageous for the Company to provide not exceeding $40 million of pledged first mortgage bonds as security for the

MDFA Bonds (Pledged Bonds) in order to secure bond insurance or other credit support for the purpose of obtaining a more favorable rate of interest for the debt. In order to take further advantage of market conditions, the Company may structure the New MDFA Bonds into separate tranches or series each with its own Mode and terms.

Q. Please describe the MDFA Bonds to be refunded through the proposed refinancing.

A. The MDFA Bonds were originally issued on behalf of Eastern Edison Company in July 1993 in connection with financing certain pollution control facilities at the Somerset Station generating station formerly owned by Montaup Electric Company, a subsidiary of Eastern Edison Company. Since the issuance of the MDFA Bonds, Somerset Station has been sold to an unaffiliated third party, and the Company has assumed Eastern Edison Company's obligations in connection with the MDFA Bonds.

Q. Would you please describe the structure of the MDFA Bonds?

A. Pursuant to the MDFA enabling legislation, MDFA may issue bonds to finance and to refinance pollution control equipment constructed by private corporations. Typically, MDFA and the corporation will enter into a loan and trust agreement. Under this agreement, MDFA will agree to issue tax-exempt debt to the public and lend the proceeds from the sale thereof to the corporation in exchange for the corporation's promise to make payments to the agency sufficient to pay the principal of and premium, if any, and interest on the bonds. The bonds sold to the public clearly state that they are only payable from revenues paid by the corporation. Therefore, the interest rate these bonds carry varies with the creditworthiness of the corporation on whose behalf the bonds are being issued. If certain provisions of the federal tax laws are met, the interest payments received by holders of these bonds will be excludable from gross income for federal and Massachusetts income tax purposes. Because of this, the holders will accept a lower interest rate than they would if the interest payments were fully taxable. In today's market, long-term, tax-exempt debt is issued with interest rates that are approximately 20% lower than interest rates on comparable taxable debt.

Once tax-exempt bonds have been issued on behalf of a corporation, they may be refunded, in accordance with their terms and subject to the approving tax opinion of bond counsel, and retain their tax-exempt status. The continued ownership of the pollution control facilities is not a requirement in order to refinance the tax-exempt bonds. The refunding tax-exempt bonds may have a maturity longer than the remaining term of the outstanding tax-exempt bonds, subject to certain requirements established under federal tax law concerning the expected life of the pollution control facilities.

Q. Why does the Company seek to issue MDFA Bonds with a maturity of up to twenty years when the MDFA Bonds to be refunded mature in five years?

A. Federal tax laws permit maturities on tax-exempt bonds not to exceed 120% of the expected life of the qualified facilities. The Company proposes to extend the maturity for as long as possible, in order to take advantage of lower interest rates generally available for tax-exempt financing. The Company is currently seeking to satisfy the requirements of bond counsel for MDFA in order to determine the expected life of the qualified facilities at the Somerset Station. Additionally, an approval from the Tax Exempt and Fiscal Responsibility Act of 1982 (TEFRA) board will be required for any extension of maturity on the MDFA bonds.

Q. What would be the new interest rate on the New MDFA Bonds?

A. Exhibit RGS-4 sets forth current prevailing rates under different modes, for both short-term and long-term tax exempt bonds.

Q. Please describe the economics of refinancing the MDFA Bonds.

A. Since the existing MDFA Bonds have a remaining life of five years, we determine the economics of the refunding during that time frame. The MDFA Bonds carry an interest rate of 5 7/8% and were callable starting August 1, 2003 at a price of 102%. The call price reduces to 101% as of August 1, 2004. Based on what comparable historical rates have been in the previous five year period, we estimate what we expect variable rates to be over the next five years. That estimate provides a rate that is approximately 3.5%, between 110 and 130 basis points less than the level necessary to break-even on a refinancing.. Thus, this refinancing would enable Mass. Electric to save money through reduced interest payments.

Q. What would be the estimated savings from refinancing the MDFA Bonds?

A. On an annual basis, the Company estimates that it would save approximately $800,000 in net interest costs. On a net present value basis, net of tax effects, the savings would amount to approximately $2 million over the next four years, based on a refinancing rate of 3.5%. Exhibit RGS-3 shows an estimate of these savings.

Q. If variable rate New MDFA Bonds are issued, how often would the interest rate be reset on the variable rate New MDFA Bonds, and how would the new rate be determined?

A. The reset could be as often as every day or only once every six months, or even less frequently. The term would be determined by the Company based on current market conditions. Except for bonds in the auction mode, at the time of each reset, bondholders would have the right to "put" their bonds to the Company at their face value plus accrued interest. A remarketing agent, retained by the Company, would set the new rate at the lowest rate of interest that would, in its judgment, having due regard for prevailing market conditions, allow the bonds to be remarketed at their par value.

Q. Mr. Seega, would you please describe how the proposed New MDFA Bonds would be sold?

A. It is contemplated that the New MDFA Bonds would be sold by the MDFA in one or more of the following methods: (i) competitive bidding, (ii) negotiations with underwriters, (iii) negotiations directly with investors, (iv) through one or more agents, or (v) to one or more agents as principal for resale to investors. The Company will be a party to the bond purchase agreement(s), and accordingly the New MDFA Bonds and their sale shall be satisfactory to the Company. In addition, the Company expects to give certain written assurances to the underwriters or the institutional investors. Once the terms of the New MDFA Bonds are established, the provisions of the Company's corresponding Pledged Bonds, if any, would also be determined.

Q. When will the Company refinance the MDFA Bonds?

A. Under current IRS rules, tax-exempt pollution control revenue bonds issued for the purpose of refunding outstanding pollution control revenue bonds may be issued no earlier than ninety days prior to the date on which the outstanding pollution control revenue bonds are called. If pollution control revenue bonds were to be issued within this ninety-day window, the Company would invest the proceeds in obligations issued or guaranteed by the United States government. However, the Company may agree upon the terms of a sale of the New MDFA Bonds prior to the ninety-day IRS window but delay closing until the ninety-day window has commenced (delayed settlements). These delayed settlement transactions would lock in favorable interest rates before actually issuing the New MDFA Bonds. Delayed settlement transactions typically are executed at a premium over current spot new issue rates for pollution control revenue bonds.

Q. What are you requesting for interest rate limits?

A. We are asking that the Department approve interest rates, that, at the time of any closing, do not exceed the then current rate for U.S. treasuries of similar maturity, plus 75 basis points (unless an order of the Department is issued approving a higher rate); provided, that, in the event that the New MDFA Bonds become taxable securities, the interest rate on the New MDFA Bonds will revert to a rate of interest not exceeding the then current rate for U.S. treasuries of similar maturity plus 300 basis points. These interest rate limits will provide the Company with flexibility to refinance the New MDFA Bonds during their term in the event that market conditions should change.

Q. Will you explain Pledged Bonds?

A. The Pledged Bonds are First Mortgage Bonds that may be pledged to the trustee for the New MDFA Bonds, or to a bond insurer for the New MDFA

Bonds, as additional security representing a first mortgage claim for the holders of all New MDFA Bonds.

Q. What advantage does the existence of Pledged Bonds provide the New MDFA Bonds bondholders or the bond insurer?

A. In the event of a default by the Company giving rise to a failure to pay principal or interest on the New MDFA Bonds, the Pledged Bonds give the holder a first mortgage lien on substantially all of the property of the Company along with the holders of other outstanding first mortgage bonds of the Company.

Q. Please describe the terms of the Pledged Bonds?

A. The Company seeks permission to issue and pledge, prior to December 31, 2004, one or more additional series and/or issues of its first mortgage bonds in an aggregate principal amount not exceeding $40 million ("New First Mortgage Bonds") having the following characteristics:

(a) The New First Mortgage Bonds may be pledged to secure the Company's obligations for payment of the principal of and premium, if any, and interest on the New MDFA Bonds. The New First Mortgage Bonds may be pledged to the trustee for the New MDFA Bonds, or to an insurer in connection with obtaining bond insurance for the New MDFA Bonds.

(b) Once the terms of the New MDFA Bonds are approved by the MDFA, the provisions of the New First Mortgage Bonds, if any, will parallel the provisions of the New MDFA Bonds with respect to which they are issued.

(c) The New First Mortgage Bonds will be issued under and pursuant to the terms of a First Mortgage Indenture and Deed of Trust dated as of July 1, 1949, as amended and supplemented (the “First Mortgage Indenture”), securing the Company’s first mortgage bonds.

(d) The New First Mortgage Bonds will be issued in one or more series and/or issues, but no New First Mortgage Bonds shall mature more than 20 years from the date as of which they are issued and will be sold at a price not less than 95% nor more than 100% of their principal amount.

(e) The New First Mortgage Bonds may or may not be callable, refundable, or puttable.

In connection with each issue of New First Mortgage Bonds, the Company proposes to execute one or more indentures supplemental to the First Mortgage Indenture mortgaging or confirming the mortgage of the First Mortgage Indenture on all of its property, assets, and franchises (except property of the character excluded from the First Mortgage Indenture by its terms) as security for all first mortgage bonds issued, or to be issued, under and pursuant to the terms thereof. The Company will receive no proceeds from the pledge of New First Mortgage Bonds and, consequently, the issue and pledge of these bonds will not affect the capitalization of the Company. Although the New First Mortgage Bonds will bear the same rate of interest as the corresponding issue of New MDFA Bonds, the Company will not have to pay interest on the New First Mortgage Bonds as long as interest payments are made on the New MDFA Bonds; and in no event would the total principal and interest paid to the holders of the New MDFA Bonds, or to the bond insurer, as the case may be, exceed the amounts provided for in such bonds.

Q. Will the terms of the Pledged Bonds be parallel to the terms of the New MDFA Bonds?

A. Yes. The interest rate and maturity of the Pledged Bonds would parallel the provisions of the New MDFA Bonds with respect to which they are issued. Interest on the Pledged Bonds would not be required to be paid so long as interest payments are made on the New MDFA Bonds. If there were a default under the loan and trust agreement for the New MDFA Bonds, interest and principal due on the Pledged Bonds would be paid to the trustee for the New MDFA Bonds, or to the bond insurer, as the case may be; however, in no event would the total principal and interest paid to the holders of the New MDFA Bonds, or such bond insurer, exceed the amounts provided for in the New MDFA Bonds.

Q. Why do you believe it is appropriate to issue Pledged Bonds?

A. The Pledged Bonds will be issued to provide additional credit support and security for the MDFA Bonds enabling the Company to get the benefit of more favorable interest rates.

<u>Mass. Electric's Present Capitalization</u>

Q. Mr. Seega, will you please state the present capitalization of the Company and indicate the ownership of its outstanding securities?

A. Exhibit RGS-1 contains the Company's Financial Statements. The Company's capital structure is shown on page 1. At December 31, 2003, there were 2,398,111 common shares outstanding having a par value of $25 per share or an aggregate par value of approximately $59,953,000. Other paid-in capital, representing additional investments in the form of capital contributions from National Grid USA, amounted to $1,508,991,000. Retained earnings and unappropriated, undistributed subsidiary earnings were approximately $184,588,000. Accumulated other comprehensive income (loss) was approximately ($113,175,000). The Company's total common equity was approximately $1,640,357,000.

There were also outstanding 47,270 shares of cumulative preferred stock with an aggregate book value of approximately $4,727,000.

As shown under the heading "Long-Term Debt", at December 31, 2003, the Company had approximately $252,183,000 of long-term debt outstanding (net of unamortized premium and discount). Long-term debt consisted of 23 issues of First Mortgage Bonds. The interest rates ranged from 5.72% to 8.85% and the maturities from 2004 to 2028.

At December 31, 2003 the Company had $240,000,000 of short-term, unsecured indebtedness outstanding, and $10,000,000 of long-term debt due within one year.

The Company's total capitalization at December 31, 2003 was approximately $1,897,267,000. The Company's capital structure consisted of 86.5% common equity, 0.2% preferred stock, and 13.3% bonds. All of the Company's common stock is owned by National Grid USA; all of the preferred stock, and First Mortgage Bonds are owned by the public.

Q. Please explain the actual and pro forma balance sheet as of December 31, 2003.

A. Yes.

Utility Plant is shown to be, in round numbers, $2.3 billion. Construction work in progress is shown to be $23 million. The accumulated provision for depreciation is approximately $880 million, and the net utility plant is about $1.5 billion. Other property and investments at that date totaled $1.5 billion, including $1 billion of goodwill, net of amortization. The total assets and other debits of the Company amounted to $3 billion.

Q. Would you describe pages 2 and 3 of RGS-1?

A. Page 2 is an actual and pro forma income statement for the Company for the 12 months ending December 31, 2003. Page 3 explains the pro forma impact of the proposed financing.

Q. Does the Company's net utility plant support the proposed amount of financing?

A. Yes. As shown on Exhibit RGS-2, as of December 31, 2003, MEC had an excess of net utility plant over total capitalization of approximately $583 million excluding the impact of goodwill, net of amortization. However, since the proceeds from the proposed refinancing will be used solely to retire outstanding higher coupon bonds of similar amounts, the net utility plant test is not applicable to this refinancing.

<u>Request for Exemption for Competitive Bidding Requirements</u>

Q. Why is the Company asking for exemption from Section 15 of Chapter 164 of the General Laws?

A. As I mentioned earlier, the MDFA may take advantage of one or more methods of selling the New MDFA Bonds. Although the Company may request that the MDFA sell the New MDFA Bonds at competitive bidding, the Company wants to be able to respond more quickly to market changes, which is essential to the facilitation and effectiveness of negotiated offerings. In order to facilitate such alternative procedures or should the Company elect to negotiate the terms of the bonds, the Company requests an exemption from the competitive bidding requirements of Section 15 of Chapter 164 of the General Law. This flexibility will permit the Company to obtain favorable interest rates for this refinancing.

Other Regulatory Approvals

Q. Are there any other regulatory approvals required for the proposed financing?

A. Other than authorizations from MDFA and the approval from the TEFRA board, there are no other regulatory approvals required.

Q. In your opinion, will the issuance of these securities be in the public interest?

A. Yes, I believe that the issuance of these securities will be in the public interest.

Conclusion

Q. Does this conclude your testimony?

A. Yes, it does.

Exhibit RGS-1

Exhibit RGS-1

MASSACHUSETTS ELECTRIC COMPANY
Statement of Income
Year Ended December 31, 2003 (In thousands)
(Actual and Pro Forma)
(Unaudited)

	Actual	Adjustments	Pro-Forma
Operating revenue	$ 1,963,460		$ 1,963,460
Operating expenses:			
Purchased electric energy:			
Non-affiliates	1,030,514		1,030,514
Contract termination charges from			
New England Power Company, an affiliate	195,703		195,703
Other operation	474,324		474,324
Maintenance	49,606		49,606
Depreciation	89,236		89,236
Taxes, other than income taxes	38,669		38,669
Income taxes	23,541	6	23,547
Total operating expenses	1,901,593	6	1,901,599
Operating income	61,867	(6)	61,861
Other income (expense):			
Other income (expense), net	(839)		(839)
Operating and other income	61,028	(6)	61,022
Interest:			
Interest on long-term debt	20,993	(950)	20,043
Other interest	5,432	144	5,576
Total interest	26,425	(806)	25,619
Net income	$ 34,603	$ 800	35,403

Statement of Retained Earnings
Year ended December 31, 2003 (In thousands)
(Actual and Pro Forma)
(Unaudited)

	Actual	Adjustments	Pro-Forma
Retained earnings at beginning of year	$ 150,568	$ -	$ 150,568
Net income	34,603	800	35,403
Dividends declared on cumulative preferred stock	(406)		(406)
Premium on redemption of preferred stock	(177)		(177)
Retained earnings at end of year	$ 184,588	$ 800	$ 185,388

MASSACHUSETTS ELECTRIC COMPANY
Balance Sheet
December 31, 2003 (In thousands)
(Actual and Pro Forma)
(Unaudited)

	Actual	Adjustments	Pro-Forma
Assets			
Utility plant, at original cost	$ 2,314,164		$ 2,314,164
Less accumulated provisions for depreciation	880,235		880,235
	1,433,929		1,433,929
Construction work in progress	23,475		23,475
Net utility plant	1,457,404		1,457,404
Goodwill	1,023,272		1,023,272
Current assets:			
Cash and cash equivalents	7,967		7,967
Accounts receivable:			
From electric energy services, including unbilled revenues	326,557		326,557
Other (including $9,395 from affiliates)	14,014		14,014
Less reserves for doubtful accounts	11,805		11,805
	328,766		328,766
Materials and supplies, at average cost	10,425		10,425
Prepaid and other current assets	1,892		1,892
Total current assets	349,050	-	349,050
Regulatory assets	6,887		6,887
Deferred charges and other assets	124,848		124,848
Total assets	$ 2,961,461	-	$ 2,961,461
Capitalization and Liabilities			
Capitalization:			
Common stock, par value $25 per share, authorized and outstanding 2,398,111 shares	$ 59,953		$ 59,953
Other paid-in capital	1,508,991		1,508,991
Retained earnings	184,588	800	185,388
Accumulated other comprehensive income (loss)	(113,175)		(113,175)
Total common equity	1,640,357	800	1,641,157
Cumulative preferred stock, par value $100 per share	4,727		4,727
Long-term debt	252,183		252,183
Total capitalization	1,897,267	800	1,898,067
Current liabilities:			
Long-term debt due within one year	10,000		10,000
Short-term debt to affiliates	240,000		240,000
Accounts payable (including $93,009 to affiliates)	242,616		242,616
Accrued liabilities:			
Taxes	1,097	6	1,103
Deferred federal and state income taxes	5,197		5,197
Interest	5,523	(950)	4,573
Other accrued expenses	27,029	144	27,173
Customer deposits	4,049		4,049
Dividends payable	54		54
Total current liabilities	535,565	(800)	534,765
Deferred federal and state income taxes	173,702		173,702
Unamortized investment tax credits	11,042		11,042
Other reserves and deferred credits	343,885		343,885
Commitments and contingencies	-		-
Total capitalization and liabilities	$ 2,961,461	-	$ 2,961,461

MASSACHUSETTS ELECTRIC COMPANY

The pro forma adjustments to show the estimated effect of the proposed transaction as applied to the foregoing Statement of Income for the 12 month period ended December 31, 2003 are as follows:

Decrease – Interest on long-term debt $950,000

Interest calculated on $40,000,000 principal amount of New Debt issued at assumed interest rate of 3.500% versus existing debt at 5.875%. (See below)

Increase – Income taxes $ 6,000

Tax effect of increasing book income by $950,000. (See below)

Calculation of Effect of Interest Rate Adjustment

Original Debt Interest Rate		
	Interest Rate	5.875%
Refinanced Debt Interest Rate		
	Interest Rate	3.500%
Principal Balance		$ 40,000,000
Annual interest under original debt		$ 2,350,000
Annual interest under refinanced debt		1,400,000
Estimated Annual Savings (Gross)		$ 950,000
Tax Rate (MA State ONLY)		6.500%
Increase in income taxes		62,000
Incremental ongoing fees & expenses		$ 144,000
Income tax associated with fees & expenses		56,000
		88,000
Estimated Annual Savings (Net)		$ 800,000

MASSACHUSETTS ELECTRIC COMPANY

The pro forma adjustments to show the estimated effect of the proposed transaction as applied to the foregoing Balance Sheet at December 31, 2003 are as follows:

Debit – Accrued liabilities-interest	$950,000

Savings resulting from less cash used for interest payments.

Credit – Accrued liabilities-taxes	$6,000

Tax effect of savings resulting from lower interest expense, net of incremental fees and expenses.

Credit – Retained earnings	$800,000

Effect of decreased interest expense and increased net income, net of incremental fees and expenses.

Exhibit RGS-2

MASSACHUSETTS ELECTRIC COMPANY
Comparison of Net Utility Plant to Total Capitalization
December 31, 2003 (In thousands)
(Unaudited)

		Actual	Adjustments	Adjusted
	Assets			
1	**Utility plant, at original cost**	$ 2,314,164		$ 2,314,164
2	Less accumulated provisions for depreciation	880,235		880,235
3		1,433,929		1,433,929
4	Construction work in progress	23,475		23,475
5	Net utility plant	1,457,404		1,457,404
6	**Goodwill**	1,023,272	(1,023,272)	-
7	**Current assets:**			
8	Cash and cash equivalents	7,967		7,967
9	Accounts receivable:			
10	From electric energy services, including unbilled revenues	326,557		326,557
11	Other (including $9,395 from affiliates)	14,014		14,014
12	Less reserves for doubtful accounts	11,805		11,805
13		328,766		328,766
14	Materials and supplies, at average cost	10,425		10,425
15	Prepaid and other current assets	1,892		1,892
16	Total current assets	349,050	-	349,050
17	Regulatory assets	6,887		6,887
18	Deferred charges and other assets	124,848		124,848
19	Total assets	$ 2,961,461	(1,023,272)	$ 1,938,189
	Capitalization and Liabilities			
	Capitalization:			
20	Common stock, par value $25 per share,			
21	authorized and outstanding 2,398,111 shares	$ 59,953		$ 59,953
22	Other paid-in capital	1,508,991	(1,023,272)	485,719
23	Retained earnings	184,588		184,588
24	Accumulated other comprehensive income (loss)	(113,175)		(113,175)
25	Total common equity	1,640,357	(1,023,272)	617,085
26	Cumulative preferred stock, par value $100 per share	4,727		4,727
27	Long-term debt	252,183		252,183
28	Total capitalization	1,897,267	(1,023,272)	873,995
	Current liabilities:			
29	Long-term debt due within one year	10,000		10,000
30	Short-term debt to affiliates	240,000		240,000
31	Accounts payable (including $93,009 to affiliates)	242,616		242,616
32	Accrued liabilities:			
33	Taxes	1,097	-	1,097
34	Deferred federal and sate income taxes	5,197		5,197
35	Interest	5,523	-	5,523
36	Other accrued expenses	27,029		27,029
37	Customer deposits	4,049		4,049
38	Dividends payable	54		54
39	Total current liabilities	535,565	-	535,565
40	Deferred federal and state income taxes	173,702		173,702
41	Unamortized investment tax credits	11,042		11,042
42	Other reserves and deferred credits	343,885		343,885
43	Commitments and contingencies	-		-
44	Total capitalization and liabilities	$ 2,961,461	(1,023,272)	$ 1,938,189

Comparison of Net Utility Plant and Capitalization

Net Utility Plant (line 5)	1,457,404
Total Capitalization (line 28)	873,995
Incremental debt due to Proposed Refinancing	-
Excess of Net Utility Plant over Total Capitalization	583,409

Exhibit RGS-3

Massachusetts Electric Company
Refinancing 1993 Series MIFA Issue, Pollution Control Revenue Refunding Bonds
$40,000,000

	Expenses Under Existing Issue				Expenses with a New Issue				
Year Ended August 1 (3)	Interest 5.875%	Interest After-Tax (4)	Fees	Total	Interest (1) BMA 3.50%	Interest (1) After-Tax 3.27%	Fees(2)	Total	Annual Savings
2005	2,350,000	2,197,250	0	2,197,250	1,400,000	1,309,000	847,204	2,156,204	41,047
2006	2,350,000	2,197,250	0	2,197,250	1,400,000	1,309,000	87,516	1,396,516	800,734
2007	2,350,000	2,197,250	0	2,197,250	1,400,000	1,309,000	87,516	1,396,516	800,734
2008	2,350,000	2,197,250	0	2,197,250	1,400,000	1,309,000	87,516	1,396,516	800,734
2009	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2010	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2011	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2012	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2013	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2014	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2015	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2016	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2017	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2018	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2019	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
2020	700,000	654,500	43,758	698,258	700,000	654,500	43,758	698,258	0
Total				$17,168,096				$14,724,848	$2,443,249
NPV @	6.00%			$12,250,688				$10,192,746	$2,057,942

(1) Interest rate for new tax exempt issue assumed to be 3.5% 10-year average BMA level.

(2) Estimated upfront expenses:

Redemption premium	400,000		
Underwriters' fees	140,000		
MDFA fee	200,000	@	0.50% of principal
Attorney fees	150,000		
Upfront Insurance	300,000	@	0.75% of principal
Rating Agencies	25,000		
Trustee fees	25,000		
Printing	10,000		
Estimated Upfront Exp.	1,250,000		
Ongoing auction fee	104,000	@	0.26% of principal
Ongoing annual insurance	40,000	@	0.10% of principal
	1,394,000		

(3) Maturity extension; only Unit No. 6 apportionment eligible for extension

as of 1997	15 -20 years remaining life	2012		2017
	years from closing	8		13
	times 120%	9.6		15.6
	final maturity	2014	-	2020

(4) Applicable MA state tax for interest: 6.50%
Applicable MA state tax for fees: 39.225%

Exhibit RGS-4

Current Tax-Exempt Interest Rates: Massachusetts Electric

Rate Update – May 7, 2004

Massachusetts Electric

	Floating Rate Bonds			Fixed Rate Bonds	
Non-AMT [3]	**35-Day Auction**	**TECP[2]**	**Daily[1]**	**2008 Maturity (Current Maturity)**	**2029 Maturity (25-Year Maturity)**
A2/A	1.20%	1.15%	1.15%	3.35%	5.40%
A1/A+	1.20%	1.10%	1.10%	3.25%	5.35%
Insured	1.05%	1.00%	1.05%	2.95%	5.15%

1. *Bondholder has option to put bonds every day.*
2. *30 Day Maturity*
3. *For AMT Bonds add 15-20 bps*